

OGC Has Reviewed

OGC 79-04482

14 May 1979

STATINTL MEMORANDUM FOR : [REDACTED]  
DC/Plans & Systems Staff/  
Office of Finance

STATINTL [REDACTED]  
C/Benefit & Services Division  
Office of Personnel

STATINTL FROM : [REDACTED]  
Office of General Counsel

SUBJECT : Taxability of CEAF Interest-Bearing  
Accounts Held in Trust by EAA

1. According to the information you provide, EAA holds certain monies in trust in interest-bearing accounts for CEAF. EAA is a 501(c)(4)<sup>1</sup> tax-exempt nonprofit employee association<sup>2</sup>; it reports but does not pay tax on those trust accounts. Neither CEAF nor the clubs, the liquidation proceeds of which are transferred to CEAF, are presently organized as juridical entities. Consequently, they file no informational or other tax returns. You ask whether any tax is owed on the interest generated by these accounts.

1/ §501(c)(4) of the Internal Revenue Code provides tax exemption for:

"Civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare, or local associations of employees, the membership of which is limited to the employees of a designated person or persons in the particular municipality, and the net earnings of which are devoted exclusively to charitable, educational, or recreational purposes."

2/ EAA tax exempt status was granted on 22 September 67 by letter from the IRS.

2. If CEAF or the individual clubs, the liquidation proceeds of which are turned over to CEAF, were organized into nonprofit corporations or into some other juridical entity, such an entity or entities would qualify for tax exemption under §501(c)(4) of the Internal Revenue Code.<sup>3</sup> Unrelated business income is taxed. IRC §512. However, except for §501(c)(7) and (9) organizations, dividend and interest income is excluded from taxable unrelated business income. IRC §§512(a)(3), (b)(1). See also 1979 CCH Standard Federal Tax Reporter ¶3243, especially ¶3243.015: Committee Report on PL 94-568. Therefore, no tax would be payable by CEAF or the individual clubs on the interest income in question, were the former to be incorporated.

STATINTL

3/ Section 501(c)(4) is quoted in footnote 1. Section 501(c)(7) grants exemption for:

Clubs organized and operated exclusively for pleasure, recreation, and other nonprofit purposes, no part of the net earnings of which inure to the benefit of any private shareholder.

It is inapplicable because the members and beneficiaries of CEAF and of the individual clubs are all CIA personnel (or detailees).

## ROUTING AND TRANSMITTAL SLIP

Date

16 May 1979

TO: (Name, office symbol, room number,  
building, Agency/Post)

Initials

Date

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| 1. | DD/Pers             | OK | 5/17/79 |
| 2. | DD/Pers 17 MAY 1979 |    |         |
| 3. | DD/Pers C/BSD       | EB | 18      |
| 4. | DC/BSD              | EB | 5/18    |
| 5. | <del>C/BSD</del> M  |    |         |

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Coordination	Justify	

## REMARKS

We asked Finance to review with OGC the practice of depositing CEAF funds in interest earning accounts through FEA. The attached opinion appears to indicate that OGC does not have a legal objection to this arrangement.

4/ info

5) CEAF file

STATINTL

DO NOT use this form as a RECORD of approvals, concurrences, disposals, clearances, and similar actions

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\* U.S. G.P.O. 1977-241-530/3090

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